St John's of Little Canada Credit Union's response to NCUA's ADVANCED NOTICE OF PROPOSED RULE MAKING

My name is David Sawin and I am the CEO of St John's of Little Canada Credit Union (SJCU). I have a BA degree in Economics and have been in the credit union movement for 15 years, the last 2 as SJCU's CEO. We are an $18M credit union with one branch that was chartered in 1946. We have always used and supported our corporate, now known as Members United Corporate Federal CU. An example of our support is the $1.2 million CU SIP loan we took out in March 13, 2009.

I do not claim to understand the business model for the corporates, so I do not feel qualified to dictate what the corporates should or shouldn't be permitted to do. On the other hand I do feel qualified to discuss their products, services and investments as they relate to risk and our needs.

I will state for the record that while we *can* afford the cost of the stabilization of the corporates due to years of sound management resulting in the accumulation of capital, I am very upset about bailing out a corporate system that was not designed to build up their own capital. I also feel strongly that natural persons credit unions need corporate credit unions so we are not at the mercy of the big banks.

Due to the unprecedented nature of the current global crisis, and the underlying causes, the corporate structure is not entirely to blame for the losses they are experiencing. However, this situation exposed some weaknesses that need to be analyzed given the changed landscape and the changes within the industry. Much has changed since US Central was created to deal with the last liquidity crisis. I applaud NCUA's efforts to restructure and recapitalize the corporate system. There were many questions addressed in the ANPR, those that I feel most qualified to answer are summarized by the following:

1. What services do I want from our corporate(s)?
    a. Payment Systems (wires & ACH)
    b. Liquidity
    c. Coin & currency services
    d. Investments
    e. Education and training

2. How should corporates be structured?
    a. Do we need a two tier structure?
        i. Is US Central still needed?
    b. Do we need 28 corporates?
    c. Should some services be provided by a CUSO
    d. Field of Membership
    e. How to get enough capital
    f. Corporate governance
        i. Experience of a Director
        ii. Outside Directors

3. What should corporates be permitted to do?
    a. Expanded Investment Authority

The following are my answers:

1. **What services do I want from our corporate(s)**
    a. As an $18 million CU with other options available to us, we use Members United for some payment systems. Specially, we utilize their domestic wire transfers. Our ACH eventually flows though them, but that is invisible to us since we do not send it directly to them. I'm glad that we are using the corporate system for ACH, but I really don't care who provides this service as long as it is cost effective and reliable. We submit our checks electronically through Minnesota Item Processing Center which is operated by the Minnesota Credit Union Network (MN's version of a CU League).

    b. Members United provides us liquidity by the use of our overnight and settlement accounts, as well as a $1 million LOC. Together these three accounts provide us a great deal of flexibility. Members United also offers a robust and secure website that allows us the access and options to run our business efficiently.

    c. Since we order our cash and coin through the Federal Reserve Bank of Minneapolis, I do not know how/if other credit unions receive cash and coin services through corporates or how well that functions. Our cash and coin orders, however, flow through our settlement account at Members United and it is smooth and efficient.

    d. We have been investing through a service called Qwickrate verses Members United's CUSO Balance Sheet Solutions because we can regularly gain 50 or more basis points. During an up rate environment the rates may be more favorable with Balance Sheet Solutions, due to dislocation in CD rates, we have been seeing spreads of 70 – 100 basis points for more than a year and therefore we have all but stopped investing with our corporate since October, 2007. Since that time we have pulled $3M out of corporate CDs (plus $3M more in Simpli CDs), but it had nothing to do with a lack of confidence in the corporate system. Having said that, if they cannot be competitive in the marketplace, then they should not be in that line of business. I do not want to suggest that they should be prohibited from offering investments, but we should not be pressured to give up 50 or more basis points simply to support our corporate! With these tight margins we will need those 50+ basis points for a long time to come.

    e. Members United offers regular education with both webinars and on-site training for their members. Examples include ALM, BSA and liquidity management. We take advantage of these sessions and they are well run and quite useful.

2. **How should the corporates be restructured**?
    a. Over the past 30 years, corporates have become larger, more sophisticated and have evolved into organizations capable of offering some of the same services that US Central has traditionally offered. This appears to have evolved to the point that US Central is no longer needed in its current form. What I really need

is liquidity, and if US Central is needed to aggregate the liquidity from the different corporates, so be it.

One thing is clear - we need the corporate system. Without them, we would be the mercy of the big banks.

b. Given the size of our movement, 28 corporates is very inefficient. The big 6 may be enough, but as Bill Raker, CEO of US Federal CU said “We only need as many corporates as we need and not one more”. Let the market balance its self out. Without US Central, I believe the small corporates will feel the need to merge. As long as the NCUA keeps them from engaging in behavior that is too risky, I don’t think we will be at a loss with just big corporates.

c. US Central provides services that we all use. So, although I do not feel like an expert here, US Central *could* be separated into one or more national CUSOs which could expand to offer many of the transactions that would derive efficiencies through economies of scale. Our individual corporates may shed some of their products or services and focus on the investment and liquidity that require more personal attention.

d. I prefer having several corporates available to me. Different ones have different specialties. While it make sense for me to keep my transaction accounts at one corporate, I do not want to be restricted from using the services of another corporate if they do a superior job. Opening the field of membership created not just competition but additional products and services for natural persons credit unions.

e. The capital at the corporates is, and was obviously too low. But how to get them to be adequately capitalized and what that number is, are the two big questions. Our MCS and PIC of 1% never felt like a risky investment until now. If you require us to put more in, (such as 2% or 3%) I am concerned that a significant number of credit unions will pull out.

   We became well capitalized by retaining earnings over a period of years. That takes time, but I am convinced that any other approach would result in an exodus of credit unions from the corporate system, particularly some of the biggest ones. The stabilization efforts that you are putting into place should allow time for them to build capital the credit union way – they should *earn* it.

   While I do not have a handle on the business model of the corporates, earning enough income is the challenge. If certain investments are excluded, interest spreads remain thin and national CUSOs begin to provide efficient solutions for electronic services, then fee income becomes their best alternative. Corporates could offer brokerage service, business lending and more training. I am open to using services from corporates that are competitive.

f. What should be done to be sure that corporates have a board that will help guide them through this and into the future? As I stated in my opening remarks, corporates were not run badly, but were victims of the financial meltdown and freezing of the MBS market. I don't think there needs to be a change in the boards of directors, specifically, bringing in outside directors. This would require significant compensation to attract the type of experience that has been suggested. And for what purpose? Would they have foreseen this mess? I don't think it is necessary. I understand the need for a diverse group of board members that can bring other business experience to enrich the discussion and result in prudent decision making. We have the necessary diversity with the existing credit union leadership from which to draw board members.

3. **What should corporates be permitted to do**?
   a. Should corporates have been given expanded investment authority? I would say maybe. I was very concerned in 1999 when the Glass-Steagall Act was repealed. I expected financial institutions to diversify too far – again. While that has occurred with the banks, allowing corporates to invest in more complex investments is not inherently risky. As you already require, corporates must have the staff that understands fully the investments before the expanded authority is granted. This seems to be a necessary part of our system. We, as natural person's credit unions, need to earn more on the money our members deposit with us, so we can afford to operate. But we need to be very cognizant of the risk. Corporates are money brokers too, but with low capital levels, are these investments too risky? I will leave that up to others to decide.

Thank you for the opportunity to weigh in on this important issue. We are at a crossroads for our industry and the actions you take now will have implications for the health of all credit unions and ultimately will impact our sustainability.